

AUDIT COMMITTEE COMPOSITION AND APPOINTMENT AUTHORITY

Background

The role of the Audit Committee is to provide independent review and oversight of: 1) the government's financial reporting process; 2) the government's internal controls; 3) the independent audit of the government's financial statements; and 4) procedures for addressing complaints of fraud, waste and abuse. The Audit Committee is also responsible for the appointment and work of the outside auditor.

Generally Accepted Government Audit Standards (GAGAS) defines independence in the context of the audit function as independence from management which is responsible for day-to-day financial operations. In the City's new form of government, the Mayor is management.

KROLL RECOMMENDATIONS

- Establish a three-member Audit Committee, with two public members and one member of the City Council.
- The two public members should have expertise in accounting, auditing and financial reporting and should be compensated for their service.
- The Mayor should appoint the two members of the Audit Committee and the Council should confirm these appointments.

Summary of Best Practices

The Securities and Exchange Commission (SEC), Government Finance Officers Association (GFOA) and Association of Local Government Auditors (ALGA) all strongly recommend that the entity responsible for day-to-day financial operations have no involvement in selecting Audit Committee members.

GFOA best practice recommends that members of a local government Audit Committee should all be members of the governing body for two reasons:

1. This is a core responsibility of the legislative branch; and
2. Non-board members would inherently weaken both its real and perceived authority by creating a gap between ultimate decision-making authority (the Council) and the Committee.

ALGA has developed model ordinance language that specifies that "Audit Committee members shall be appointed by the legislative body and all appointees shall be independent of local government's management."

Summary of City Attorney's Position

The current Charter does not allow anyone but the Mayor to appoint members of advisory boards. (Charter Sections 41 and 43)

The City Council cannot delegate financial responsibility to non-board members (i.e. citizens). (Charter Section 11.1)

Citizens cannot direct the work of a department (i.e. the Internal Auditor). (Charter Section 43)

Citizens cannot receive compensation for serving on an advisory board. (Charter Section 43)

Current Composition

The Audit Committee was created in January of 2007 consisting of three members of the legislative body. The Committee will be augmented by citizen expertise in an ad hoc, issue-based capacity, as well as professional consultant expertise.

IBA Recommendation

Members of the legislative body should make-up either all or a majority of the Audit Committee membership. If citizens are added, they should be appointed by the legislative body. *not mayor b/c indep from mgmt*

CHARTER IMPLICATIONS

- None to continue current Audit Committee composition of three members of the legislative body.
- Changes may be needed to Charter Sections 11.1 and 43 to allow citizens to be appointed as members of the Audit Committee.
- Changes may be needed to Charter Sections 41 and 43 to allow the legislative body, rather than the Mayor, to appoint the citizen members and for the members to receive compensation as recommended by Kroll if determined desirable.